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SUBJECT: World Bank mulls timing and content of its next financial sector loan in Egypt

REF: A) Cairo 2868; B) Cairo 2726

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¶1. (U) Summary: The World Bank continues to prepare its next large financial sector loan to Egypt, but is slowing presentation to the World Bank Board somewhat, pending resolution of the Banque du Caire privatization, among other conditions. World Bank staff senses some reform hesitation at the Central Bank, a view not shared by the IMF (ref a). End Summary.

¶2. (SBU) Treasury Attache met with World Bank staff working on financial sector reform on Sept. 20. World Bank staff expressed some concern that the Central Bank's commitment to financial sector reform may have slowed. The World Bank noted that Governor El Okdah had not spoken publicly about the Banque du Caire sale for some time, and that the Governor had skipped the session with the Parliament, instead sending Deputy Governor Tarek Amr and Minister of Investment Moheildin to face the Parliament's tough questions. In addition, when President Mubarak and Prime Minister Nazif were forced to publicly defend the privatization plan, World Bank staff opined that this could indicate Mubarak's and Nazif's disappointment that the Governor had not been willing to take some of the public criticism (ref b). The announcement for the sale advisor of Banque du Caire has been anticipated for several weeks, but the World Bank questioned whether it would be forthcoming during the month of Ramadan (which ends October 13). It was the World Bank's view also that the Governor had become a bit less forthcoming and more defensive regarding information pertaining to the status of restructuring the two remaining state-owned banks (Bank Misr and National Bank of Egypt).

¶3. (U) The World Bank is still prepared to lend more budget support to the Government of Egypt, assuming reform does not slow. Earlier in the year, the World Bank had anticipated bringing their Development Policy Loan (DPL) II to the Board in September, but now is waiting at least until the Banque du Caire sale advisor is announced, and more likely, waiting until the sale itself is completed (anticipated in March 2008).

¶4. (U) When the World Bank's DPL I was approved in 2006, it foreshadowed the conditions it would be seeking for a follow up loan. In general terms, the phase two loan is envisioned to cover areas such as: (i) the regulatory and supervisory framework for banking and insurance, (ii) the restructuring of the state-owned banks, (iii) reducing public ownership in the joint venture banks,

(iv) restructuring of the insurance industry, (v) modernizing budget preparation, and (vi) improving public financial management and corporate financial reporting. In addition to seeking greater comfort that the Banque du Caire sale will come to fruition, some of the specifics that the World Bank is focused on include: getting greater clarity from the GOE on the plans for the remaining state-owned banks, seeing at least one state-owned insurance company privatized (as also benchmarked in the US Financial Sector MOU cash transfer), and taking action on the draft Accountancy Law. The Accountancy Law seeks to modernize the supervision/regulation of the accounting industry in Egypt and has been in draft form since 2003 when the World Bank first recommended it be updated.

15. (U) The African Development Bank (AfDB) also wishes to be part of the lending package to the GOE, as the AfDB indicated to the Treasury Attache in early September. However, it remains somewhat unclear how the World Bank and AfDB will divide these responsibilities, and what the ultimate timing and amounts from the two institutions will be. An AfDB negotiating team is expected to visit Cairo in November.

Comment

16. (SBU) There are some areas in the proposed DPL II which are either addressed in USAID's existing Financial Sector MOU, or which are envisioned in the draft education, health and private sector cash transfer MOU which should be signed soon. It will be important for the US and the World Bank (and the AfDB if necessary) to coordinate as we try to reward good performance, stimulate faster reform and not undermine or duplicate each other's efforts. (Note: When the original DPL and the AFDB companion loan were made in 2006, there was some concern in the USG that the multilateral development bank loans were undercutting USG assistance as they provided large

sums up-front, as opposed to the USG MOU which required some performance before the bulk of the funds were disbursed. End Note.) As we look to the more distant future, it is worth flagging that the World Bank seeks to do a potential DPL III in 2009, assuming reform momentum is adequate.

17. (SBU) This conversation with World Bank staff suggests that the Bank is less positive than the IMF is on Egypt's reform momentum. The IMF's concluding statement to its recent Article IV mission (dated September 12, 2007) was very positive (ref a). The divergent views from the two institutions may be a result of who their primary interlocutors are. The World Bank tends to be less close with the Central Bank, yet very close with the Ministry of Investment, whereas the IMF is very close with the Central Bank, and less so with the other ministries. It will be interesting to see if the World Bank is capable of leveraging faster reform from the GOE.
JONES